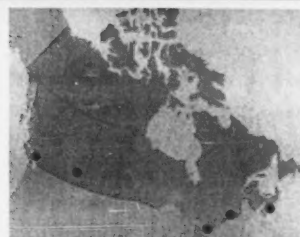




BANK OF CANADA
BANQUE DU CANADA

BUSINESS OUTLOOK SURVEY

Conducted by the Bank's Regional Offices



Results of the Spring 2007 Survey

Overview

- Overall, businesses remain positive about the economic outlook.
- All indicators of business activity (future sales, expected employment, and investment intentions) have increased relative to the previous survey.
- Pressures on production capacity remain at comparatively high levels, while expectations for inflation are similar to those of the previous survey.

Business activity

- The balance of opinion regarding future sales growth is slightly more positive, owing to a widespread improvement in sentiment among firms in the services-producing sector.
- Overall, pressures on production capacity are unchanged, while the proportion of firms reporting labour shortages has increased somewhat. Both capacity pressures and labour shortages remain more intense in Western Canada than in other parts of the country.

- Hiring and investment intentions are strong in most regions and sectors.

Prices and inflation

- On balance, firms expect input prices to rise more slowly over the next 12 months, while output prices are expected to grow at rates similar to those of the past year.
- Expectations for consumer price inflation are unchanged from the winter survey and continue to be concentrated within the Bank's inflation-control range of 1 to 3 per cent.

The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Details of the survey and its content are discussed in the article, "The Bank of Canada's Business Outlook Survey," published in the spring 2004 issue of the Bank of Canada Review. The spring 2007 survey was conducted from 26 February to 23 March.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

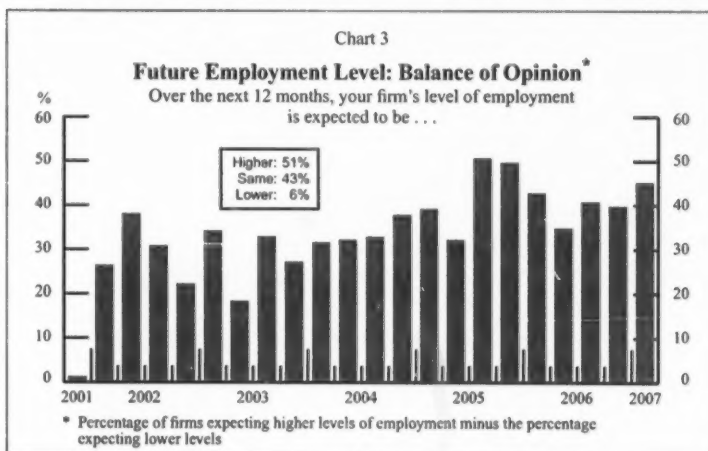
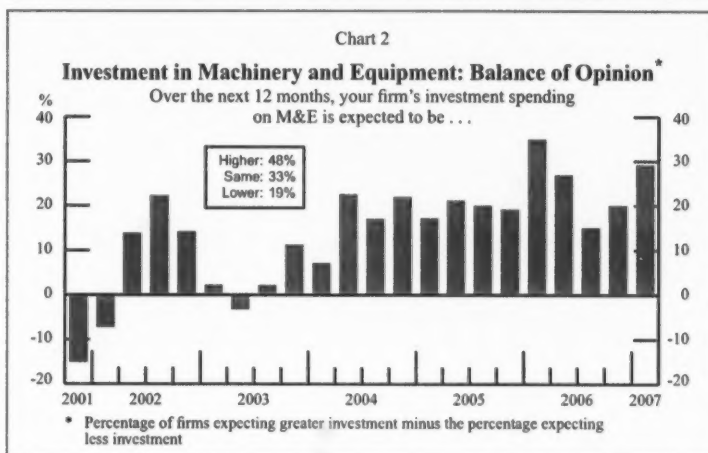
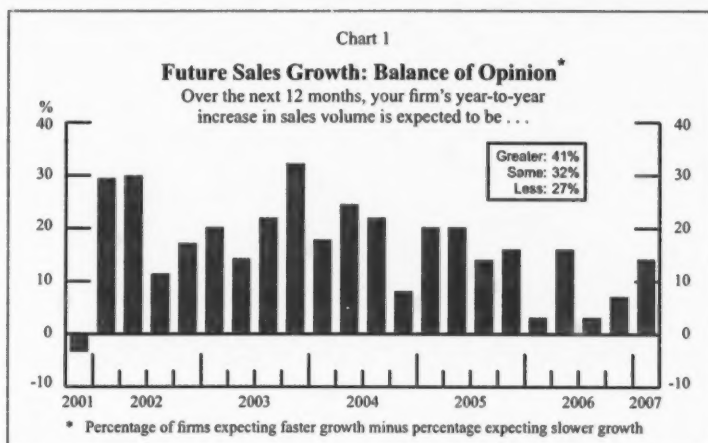
Bank of Canada regional offices: Atlantic Provinces (Halifax), Quebec (Montréal), Ontario (Toronto), Prairie Provinces, Nunavut, and Northwest Territories (Calgary), British Columbia and Yukon (Vancouver)

Outlook for Business Activity

The balance of opinion regarding future sales growth rose, reflecting gains in Western Canada, where a number of firms have made investments aimed at expanding capacity. While the balance of opinion in Central and Eastern Canada remains positive, it fell slightly as improvements among services-producing firms were more than offset by declines for goods-producing firms.

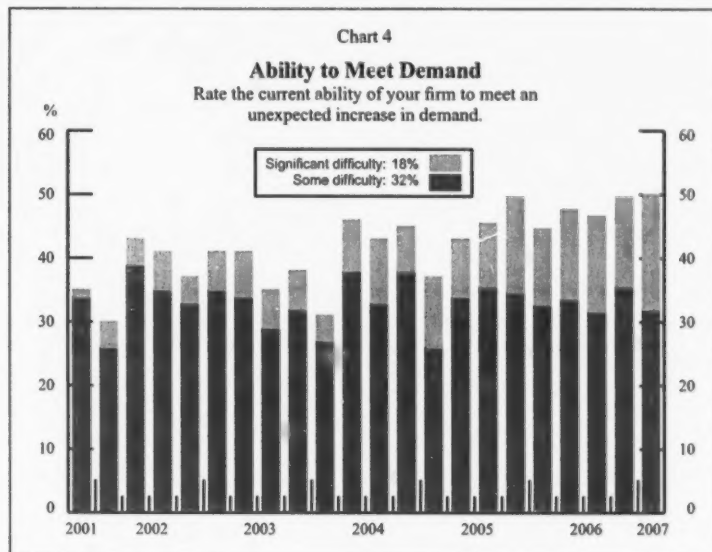
Investment intentions have moved back up to a high level, largely because of improved expectations among firms in Western Canada. Most regions and sectors have robust expectations for future investment spending.

Hiring intentions are generally robust across all regions and most sectors. Intentions continue to be higher in the services sector than in the goods-producing sector. Manufacturers' hiring intentions fell, as they did in the winter survey.

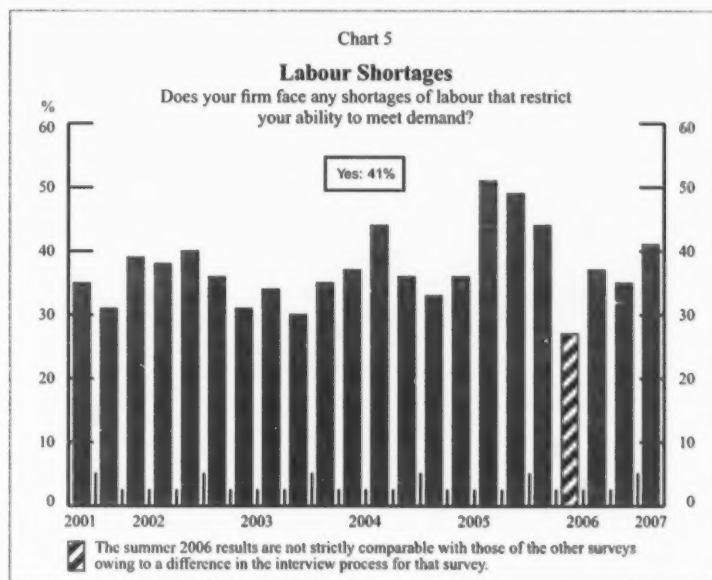


The balance of opinion is the difference between the percentage of firms expecting a given economic variable to be higher or to increase at a faster pace than in the previous year, and the percentage expecting the variable to be lower or to grow at a slower pace. The balance of opinion can vary between +100 and -100. A strong positive balance of opinion suggests an acceleration in the trend growth rate over the previous period. Note: Percentages may not always add to 100 because of rounding.

Pressures on Production Capacity



The percentage of firms reporting difficulties in meeting an unexpected increase in demand has remained relatively stable and above its historical average. Capacity pressures continue to be more intense in Western Canada than in the rest of the country.



The proportion of firms reporting labour shortages that restrict their ability to meet demand increased from the previous survey. While an increase was reported in most regions and sectors, pressures are still more acute in the West. Shortages continue to be most prevalent in the construction, primary, and transportation sectors.

Outlook for Prices and Inflation

On balance, businesses expect their input prices to rise at a slower pace over the next 12 months than in the previous 12-month period. This negative balance is due, at least partly, to expectations of reduced momentum in the prices of energy and other primary commodities.

The balance of opinion regarding output price inflation remains close to zero, meaning that firms expect their output prices to grow at a similar pace to that of the past 12 months.

After having fallen in the winter survey, inflation expectations are unchanged. Most firms (88 per cent) expect the rate of change in the consumer price index over the next two years to be within the Bank's inflation-control range of 1 to 3 per cent.

